

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
SOE-02 OMB-01 DOE-11 IGA-02 XMB-02 OPIC-03 SIL-01
/123 W

-----091208 302000Z /45

R 301716Z JAN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 4557
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
AMCONSUL OPORTO
AMCONSUL PONTA DELGADA

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USEEC

USMTN

ALSO FOR USOECD

E.O. 11652: N/A
TAGS: ECON EFIN PO
SUBJECT: ECONOMIC DEVELOPMENTS

SUMMARY: PRIME MINISTER-DESIGNATE MARIO SOARES ANNOUNCED
JAN 26 THE MINISTERS OF THE SECOND CONSTITUTIONAL GOVERNMENT.
HE PROMISED TO NAME THE SECRETARIES AND SUB-SECRETARIES
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DURING THE WEEK OF JAN 30 - FEB 3. SMALL SAMPLING OF
AMERICAN BUSINESS COMMUNITY REVEALS A RESERVED HOPEFULNESS
IN POLITICAL PROSPECTS. SWEDEN SIGNED BILATERAL LOAN
AGREEMENT WITH PORTUGAL. GOP SEEKING TO FORCE A REDUCTION
IN IMPORTS. ON LABOR FRONT, PCP STRENGTHENED ITS
POSITION IN SEVERAL UNION ELECTIONS. GOP PROPOSED
END OF INTERVENTION IN AMERICAN COMPANY AND OBTAINED

LEGISLATIVE APPROVAL FOR A NEW PL-480 CONTRACT. ESCUDO/
DOLLAR BUY RATE IS STABLE. END SUMMARY.

1. INITIAL REACTION TO NEW GOVERNMENT: PRIME MINISTER-
DESIGNATE MARIO SOARES ANNOUNCED JAN 26 THE COMPOSITION
OF THE NEW FIFTEEN MEMBER COUNCIL OF MINISTERS (LISBON 721).
NAMES OF SECOND LEVEL GOVERNMENT ECHELON WILL BE FORTH-
COMING DURING WEEK OF JAN 30-FEB 3. EARLIER BRIEF
SAMPLING OF AMERICAN COMMUNITY INDICATED THE
BUSINESSMEN ARE CAUTIOUSLY OPTIMISTIC ABOUT THE POLICIES
AND SURVIVABILITY OF THE NEW GOVERNMENT. THEY HOPE THE
CDS WILL EXERT A BENEFICIAL INFLUENCE ON KEY ECONOMIC,
COMMERCIAL AND LABOR ISSUES. STRONG PCP OPPOSITION TO THE
GOVERNMENT, HOWEVER, CAUSED SOME CONCERN THAT LABOR
PROBLEMS MAY INCREASE, ESPECIALLY OVER THE SHORT-TERM.

2. SWEDEN CONCLUDES BILATERAL LOAN AGREEMENT: SWDEN AND
PORTUGAL SIGNED LOAN AGREEMENT JAN 26. THE LOAN, AMOUNTING
TO 50 MILLION KRONA (US \$10.7 MILLION), REPRESENTS SWEDEN'S
PARTICIPATION IN THE COORDINATED LOAN PROGRAM ARRANGED
IN PARIS. LOAN WILL BEAR ANNUAL INTEREST OF 7.5 PERCENT
AND WILL BE AMORTIZED IN EIGHT ANNUAL INSTALLMENTS
BEGINNING ON DEC 31, 193.

3. IMPORT CONTROLS: THE MINISTRY OF TRADE HAS INFORMED
A NUMBER OF FIRMS - E.G., KODAK, CATERPILLAR - THAT IT
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INTENDS TO LIMIT THEIR 1978 IMPORT LICENSES TO 90
PERCENT OF THE NOMINAL ESCUDO VALUE OF THEIR AVERAGE
1976/1977 IMPORTS. THIS ACTION WILL RESULT IN A
SIGNIFICANT DROP IN IMPORT VOLUME BECAUSE OF ESCUDO
DEPRECIATION OVER PERIOD. EMBASSY EXPECTS GOP MAY SEEK
TO APPLY THIS PROCEDURE TO NUMEROUS SECTORS CONSIDERED
TO BE NON-ESSENTIAL OR JUDGED TO HAVE ACCUMULATED EXCESS
STOCKS. GOP APPEARS TO HAVE CHOSEN, AT LEAST THUS FAR, TO
USE THIS TACTIC TO FORCE A REDUCTION IN IMPORTS.

4. LABOR: UNREST IN LABOR SECTOR CONTINUES WITH SMALL
SCALE STRIKES AND WORK STOPPAGES OCCURRING IN VARIOUS
PARTS OF COUNTRY. CONFLICTS CENTER FOR MOST PART ON
LAY-OFFS AND NON-COMPLIANCE WITH LABOR CONTRACTS, BUT
A CONNECTION WITH CAMPAIGN BY COMMUNIST-DOMINATED GENERAL
WORKERS CONFEDERATION (CGTP-IN) AGAINST PS/CDS COALITION
CANNOT BE DISCOUNTED. FOUR HOUR NATIONWIDE RAIL STRIKE
AND SIMILAR STRIKE BY TEACHERS ARE SCHEDULED FOR FEB 2.

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NATIONWIDE UNION LEADERSHIP HAS, NEVERTHELESS, FOCUSED
PRIMARILY ON RECENT UNION ELECTIONS. THE COMMUNISTS
STRENGTHENED THEIR HOLD ON IMPORTANT METALLURGICAL
WORKERS UNION OF LISBON AND ON NATIONAL FEDERATION OF
POSTAL AND TELECOMMUNICATIONS WORKERS. UNOFFICIAL AND
INCOMPLETE RETURNS FROM JAN 26 ELECTIONS IN DEMOCRATICALLY-
CONTROLLED OFFICE EMPLOYEES UNION OF LISBON INDICATE,
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HOWEVER, THAT PS/CDS SLATE SUPPORTED BY CDS HAS DEFEATED
CGTP-IN BACKED SLATE, BUT MARGIN OF VICTORY IS
CONSIDERABLY LESS THAN IN 1975.

5. INVESTMENT PROBLEMS: GOP OFFERS TO END INTERVENTION IN LUNDBERG: GOP HAS BEEN SERIOUSLY CONSIDERING DISINTERVENTION IN LUNDBERG, A 50 PERCENT U.S. -OWNED CONSULTING FIRM IN THE CELLULOSE SECTOR (LISBON 333). THE GOVERNMENT HAS NOW PROPOSED RETURNING THE FIRM TO ITS ORIGINAL OWNERS, BUT UNDER UNDESIRABLE CONDITIONS, E.G., STRETCH-OUT OF PAYMENTS DUE TO THE COMPANY FROM OTHER INTERVENED FIRMS AND ABSORPTION OF INCREASED PERSONNEL. LOCAL REPRESENTATIVE FOR OWNERS INFORMED EMBASSY HE WILL PROBABLY OFFER COUNTER-PROPOSAL REQUESTING VIABILITY CONTRACT WHICH WOULD PERMIT INTERVENED COMPANIES TO CONSOLIDATE THEIR DEBTS TO LUNDBERG.

6. PL-480 CONTRACT: ON JAN 25 THE PS/CDS MAJORITY IN THE ASSEMBLY APPROVED, WITH PSD AND PCP ABSTAINING AND UDP OPPOSING, GOP REQUEST FOR AUTHORIZATION TO NEGOTIATE A \$40 MILLION TITLE I PL-480 AGREEMENT. AUTHORIZATION PROVIDES FOR 200 THOUSAND MT OF WHEAT, 60 THOUSAND MT OF CORN AND SORGHUM, AND 30 THOUSAND MT OF RAW COTTON.

7. ESCUDO RATE: THE ESCUDO/DOLLAR BUY RATE, WHICH STOOD AT 40.115 ON JAN 20, CLOSED AT 39.952 ON FRIDAY, JAN 27.
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Message Attributes

Automatic Decaptioning: X
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Concepts: PRIME MINISTER, GOVERNMENT REFORM, CABINET, PERSONNEL APPOINTMENTS, ECONOMIC PROGRAMS
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Format: TEL
From: LISBON
Handling Restrictions: n/a
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Litigation History:
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Message ID: 56a5eae4-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
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Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
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Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
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Secure: OPEN
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Subject: ECONOMIC DEVELOPMENTS SUMMARY: PRIME MINISTER-DESIGNATE MARIO SOARES ANNOUNCED JAN 26 THE MINISTERS OF THE SECOND CONSTITUTIONAL
TAGS: ECON, EFIN, PO, (SOARES, MARIO)
To: STATE USEEC MULTIPLE
Type: TE
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Review Markings:
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